PROPOSITION

1D KINDERGARTEN–UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006.

OFFICIAL TITLE AND SUMMARY ★ ★ ★

Prepared by the Attorney General

KINDERGARTEN–UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006.

1D

- This ten billion four hundred sixteen million dollar ($10,416,000,000) bond issue will provide needed funding to relieve public school overcrowding and to repair older schools.
- It will improve earthquake safety and fund vocational educational facilities in public schools. Bond funds must be spent according to strict accountability measures.
- Funds will also be used to repair and upgrade existing public college and university buildings and to build new classrooms to accommodate the growing student enrollment in the California Community Colleges, the University of California, and the California State University.
- Appropriates money from the General Fund to pay off bonds.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- State costs of about $20.3 billion to pay off both the principal ($10.4 billion) and interest ($9.9 billion) on the bonds. Payments of about $680 million per year.

FINAL VOTES CAST BY THE LEGISLATURE ON AB 127 (PROPOSITION 1D)

Senate:	Ayes 29	Noes 8
Assembly:	Ayes 58	Noes 12

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Public education in California consists of two systems. One system includes about 1,000 local school districts that provide education from kindergarten through grade 12 ("K–12") to about 6.3 million students. The other system (commonly referred to as "higher education") includes the California Community Colleges (CCC), the California State University (CSU), and the University of California (UC). These three higher education segments provide education beyond grade 12 to a total of about 2.1 million students.

K–12 School Facilities

Through the School Facility Program (SFP), K–12 school districts apply for funding to buy land, construct new buildings, and modernize (that is, renovate) existing buildings. A school district's allocation is based on a formula. The formula considers the number of students a district expects to enroll that cannot be served in existing facility space. The SFP requires the state and school districts to share the cost of facilities. For new construction projects, the cost is shared equally by the state and school districts. For modernization projects, the state pays 60 percent and school districts pay 40 percent of the cost. If a school district faces unusual circumstances, however, it may apply for "hardship" funding from the state to offset its local share of costs.

Major Funding Sources. As described below, funding for school facilities comes mostly from state and local general obligation bonds. (See "An Overview of State Bond Debt" on page 96 for more information on these bonds.)

★ ★ ★ ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

- ***State General Obligation Bonds.*** The state has funded the SFP by issuing general obligation bonds. Over the past decade, voters have approved a total of $28.1 billion in state bonds for K–12 school facilities. Approximately $3 billion of these funds remain available for new construction projects.
- ***Local General Obligation Bonds.*** At the local level, school districts typically meet most of their matching requirement and other construction needs by issuing local general obligation bonds. These local bonds can be authorized with the approval of 55 percent of the voters in the district. The bonds are repaid using local property tax revenue. Over the past ten years, school districts have received voter approval to issue more than $41 billion in local facility bonds.

Although school facilities currently are funded mostly from state and local general obligation bonds, school districts also receive funds from:

- ***Developer Fees.*** State law allows school districts to impose developer fees on new construction. These fees are levied on new residential, commercial, and industrial developments. Although they contribute a moderate amount statewide compared to general obligation bond proceeds, developer fees vary significantly by community depending on the amount of local development. In fast-growing areas, they can make notable contributions to K–12 school construction.
- ***Special Local Bonds (Known as "Mello-Roos" Bonds).*** School districts also may form special districts to sell bonds for school construction projects. (A special district generally does not encompass the entire school district.) The bonds, which require two-thirds voter approval, are paid off by property owners located within the special district. Over the past decade, Mello-Roos bonds have provided school districts with a total of $3.7 billion in facility funding.

Higher Education Facilities

California's system of public higher education includes 142 campuses in the three segments listed below:

- The CCCs provide instruction to about 1.5 million students at 109 campuses operated by 72 locally governed districts throughout the state. The community colleges grant associate degrees, offer a variety of technical career courses, and provide general education coursework that is transferable to four-year universities.
- The CSU has 23 campuses, with an enrollment of about 420,000 students. The system grants bachelor degrees, master degrees, and a small number of specified doctoral degrees.
- The UC has nine general campuses, one health sciences campus, and various affiliated institutions, with total enrollment of about 210,000 students. This system offers bachelor, master, and doctoral degrees, and is the primary state-supported agency for conducting research.

Over the past decade, the voters have approved $6.5 billion in state general obligation bonds for capital improvements at public higher education campuses. Virtually all of these funds have been committed to specific projects. The state also has provided about $1.6 billion in lease-revenue bonds (authorized by the Legislature) for this same purpose.

In addition to these state bonds, the higher education segments have three other sources of funding for capital projects.

- ***Local General Obligation Bonds.*** Like K–12 school districts, community college districts are authorized to sell general obligation bonds to finance construction projects with the approval of 55 percent of the voters in the district. Over the past decade, community college districts have received voter approval to issue more than $15 billion in local facility bonds.

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- ***Gifts and Grants.*** In recent years, CSU and UC together have received more than $100 million annually in gifts and grants for construction of facilities.
- ***UC Research Revenue.*** The UC finances the construction of some new research facilities by selling bonds and pledging future research revenue for their repayment. Currently, UC uses about $130 million a year of research revenue to pay off these bonds.

PROPOSAL

This measure allows the state to sell $10.4 billion of general obligation bonds for K–12 school facilities ($7.3 billion) and higher education facilities ($3.1 billion).

K–12 School Facilities

As shown in Figure 1, the $7.3 billion for K–12 school facilities is designated for seven types of projects. The underlying requirements and funding formulas for four of these project types (modernization, new construction, charter school facilities, and joint-use projects) would be based on the existing SFP. The other three types of projects (overcrowded schools, career technical facilities, and environment-friendly projects) would be new components of the SFP.

Modernization ($3.3 Billion). These monies would be for the modernization of existing school facilities. School districts would be required to pay 40 percent of project costs (unless they qualify for state hardship funding).

New Construction ($1.9 Billion). These monies would cover various costs associated with building new facilities, including site acquisition, project design, engineering, construction, and inspection. Up to $200 million of the $1.9 billion would be available to retrofit facilities likely to be unsafe during an earthquake. Districts would be required to pay 50 percent of new construction and earthquake-safety projects (unless they qualify for state hardship funding).

FIGURE 1

Proposition 1D: Uses of Bond Funds

	Amount (In Millions)
K–12	
Modernization projects	$3,300[a]
New construction projects	1,900[a,b]
Severely overcrowded schools	1,000
Charter schools facilities	500
Career technical facilities	500
Environment-friendly projects	100
Joint-use projects	29
Subtotal, K–12	**($7,329)**
Higher Education	
Community Colleges	$1,507
University of California	890[c]
California State University	690
Subtotal, Higher Education	**($3,087)**
Total	**$10,416**

[a] A total of up to $200 million is available from these two amounts combined as incentive funding to promote the creation of small high schools.

[b] Up to $200 million is available for earthquake-related retrofitting.

[c] $200 million is available for medical education programs.

Relief Grants for Overcrowded Schools ($1 Billion). As a condition of receiving one of these grants, school districts would be required to replace portable classrooms with newly constructed permanent classrooms, remove portable classrooms from overcrowded school sites, and reduce the total number of portable classrooms within the district. As with other new construction projects, districts would be required to pay 50 percent of project costs. Under the program definition of overcrowded, roughly 1,800 schools (or 20 percent of all schools) would be eligible for funding.

Career Technical Education Facilities ($500 Million). The measure also funds a new facility program designed to enhance educational opportunities for students interested in technical careers. Grants would be provided to high schools and local agencies that have career technical programs. The grants would be allocated on a per square foot basis, with a maximum of $3 million for each new construction project and $1.5 million for each modernization project. For both types of grants, the required local contribution would be 50 percent of project costs. Given the program's requirements, approximately 500 school districts (or one-half of all districts) would be eligible for new construction and modernization grants. In addition, about 25 local agencies would be eligible for modernization grants.

Charter School Facilities ($500 Million). These monies would be for new construction and modernization of charter school facilities. (Charter schools are public schools that are exempt from certain state requirements in exchange for adhering to a local- or state-approved charter.) A 50 percent local contribution would be required.

Environment-Friendly Projects ($100 Million). These monies would be provided as special incentive grants to promote certain types of environment-friendly facilities. For example, districts could receive grant funding if their facilities included designs and materials that promoted the efficient use of energy and water, the maximum use of natural lighting, the use of recycled materials, or the use of acoustics conducive to teaching and learning. The same local contributions would be required as for other new construction and modernization projects.

Joint-Use Projects ($29 Million). These monies would be available for both constructing new facilities and reconfiguring existing facilities for a joint-use purpose. Joint-use projects include gymnasiums, libraries, child care facilities, and teacher preparation facilities that are located at a school but used for joint school/community or K–12/higher education purposes. Under such arrangements, the school district and joint-use partner share the 50 percent local matching requirement.

Higher Education Facilities

The measure includes $3.1 billion to construct new buildings and related infrastructure, alter existing buildings, and purchase equipment for use in these buildings for the state higher education segments. As Figure 1 shows, the measure allocates $1.5 billion to CCC, $890 million to UC, and $690 million to CSU. The Governor and Legislature would select the specific projects to be funded by the bond monies.

FISCAL EFFECTS

The costs of these bonds would depend on interest rates in effect at the time they are sold and the time period over which they are repaid. The state would likely make principal and interest payments from the state's General Fund over a period of about 30 years. If the bonds were sold at an average interest rate of 5 percent, the cost would be about $20.3 billion to pay off both principal ($10.4 billion) and interest ($9.9 billion). The average payment would be about $680 million per year.

For text of Proposition 1D see page 120.